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IN THE

Supreme Court of the United States

OCTOBER TERM, 1962

No. 501

HIGH FIDELITY RECORDINGS, INC.,

Petitioner,

vs.

AUDIO FIDELITY, INC.,

Respondent.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

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SUBJECT INDEX

	PAGE
Opinions below	1
Jurisdiction	2
Questions presented	2
Constitution and statutes involved	3
Constitution	3
Statutes	3
Statement	4
Reasons for granting the writ	5
Conclusion	11
Appendices:	
Appendix A. Memorandum Opinion	App. p. 1
Appendix B. Opinion of the United States Court of Appeals for the Ninth Circuit	App. p. 15
Appendix C. Judgment	App. p. 23
Appendix D. Order Denying Petition for Rehearing	App. p. 24

TABLE OF AUTHORITIES CITED

CASES

Capitol Records, Inc. v. Mercury Records Corp., 221 F. 2d 657 ..... 6, 7

Erie R. Co. v. Tompkins, 304 U. S. 64 ..... 7, 10

Ettore v. Philco Television Broadcasting Corp., 229 F. 2d 481, cert. den. 351 U. S. 929 7

Fashion Originators Guild of America, Inc. v. FTC, 114 F. 2d 80, aff'd 312 U. S. 457 7

G. Ricordi & Co. v. Haendler, 194 F. 2d 914 7

Guarantee Trust Co. v. York, 326 U. S. 99 10

Holmes v. Hurst, 174 U. S. 82 6

Hornaday v. Hornaday, 95 Cal. App. 2d 384, 213 P. 2d 91 9

Hurn v. Oursler, 289 U. S. 238 6

Lowes, Inc. v. Superior Court, 18 Cal. 2d 419, 15 P. 2d 983 ..... 2, 8

Modesto Creamery Co. v. Stanislaus Creamery Co., 168 Cal. 289, 142 Pac. 845 8

National Comics Publications v. Faucett Publications, 191 F. 2d 594 7

National Van Lines, Inc. v. Dean, 237 F. 2d 688 10

Six Companies of Calif. v. Joint Highway District No. 13, 311 U. S. 180 10

Viner v. Untrecht, 26 Cal. 2d 261, 158 P. 2d 3 9

Wheaton v. Peters, 33 U. S. 591 6

STATUTES

Federal Copyright Act, Sec. 1(a) 5

61 Statutes at Large, p. 652 2

United States Code, Title 17, Sec. 1 et seq 6

PAGE

United States Code, Title 17, Sec. 1(a) 3
United States Code, Title 17, Sec. 24 8
United States Code, Title 17, Sec. 101 7
United States Code, Title 17, Sec. 116 7
United States Code, Title 28, Sec. 1254(1) 2
United States Code, Title 28, Sec. 1332(a)(1) 2, 4
United States Code, Title 28, Sec. 1338(a) 3
United States Code, Title 28, Sec. 1652 4
United States Constitution, Art. I, Sec. 8, Clause 8 ..... 3, 6
United States Constitution, Art. VI, Clause 2 3

TEXTBOOKS

69 Harvard Law Review (1956), p. 409, Kaplan, Performer's Right and Copyright: The Capitol Records Case 6
72 Harvard Law Review (1959), pp. 1079, 1098-1099, Kalodner and Vance, The Relation Between Federal and State Protection of Literary and Artistic Property 6

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AUDIO FIDELITY, INC.,

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Petition for a Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit.

To the Honorable Earl Warren, Chief Justice, and to the Honorable Associate Justices of the Supreme Court of the United States:

High Fidelity Recordings, Inc., the petitioner herein, prays that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Ninth Circuit entered in the above-entitled case on June 28, 1962.

Opinions Below.

The opinion of the Circuit Court of Appeals for the Ninth Circuit (*infra*, App. B, p. 15) is reported at 305 F. 2d 86. The opinion of the United States District Court for the Southern District of California, Central Division (*infra*, App. A, p. 1) is unreported.

Jurisdiction.

The judgment of the Court of Appeals for the Ninth Circuit was entered on June 28, 1962 (*infra*, App. C., p. 23). A timely petition for rehearing was denied on August 27, 1962 (*infra*, App. D, p. 24). The Court of Appeals for the Ninth Circuit granted and continued a stay of issuance of the mandate of that court pending the disposition of this Supreme Court of the United States of a petition for a writ of certiorari, provided that this petition is filed by October 10, 1962.

The jurisdiction of this Court is invoked under 28 U. S. C., Section 1254(1).

Questions Presented.

(1) Whether the several states have the power to create remedies for the copying and sale of a work that has been published and is copyrighted under the Federal Copyright Act (17 U. S. C., as codified and enacted into positive law by the Act of July 30, 1947 (61 Stat. 652), as amended).

(2) Whether the Federal Court in the exercise of its diversity jurisdiction (28 U. S. C., Section 1332(a)(1)) can grant remedies under state law for the copying and sale of a federally copyrighted work.

(3) Whether the Federal Court exceeds its diversity jurisdiction in granting remedies under California state law for the enforcement of rights secured by the Federal Copyright Act when such procedure is contrary to the law of that state as announced in *Lowes, Inc. v. Superior Court*, 18 Cal. 2d 419, 15 P. 2d 983 (1941).

(4) Whether the Federal Court exceeds its diversity jurisdiction in awarding attorneys' fees in an action of

unfair competition under California state law when such an award is contrary to the established policy and law of that state.

Constitution and Statutes Involved.

Constitution.

Article VI, Clause 2:

> "This Constitution, and the laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding."

Article I, Section 8, Clause 8:

> "The Congress shall have power . . . to promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

Statutes.

17 U. S. C. Section 1(a):

> "Any person entitled thereto, upon complying with the provisions of this title, shall have the exclusive right:
>
> (a) To print, reprint, publish, copy and vend the copyrighted work."

28 U. S. C. Section 1338(a):

> "The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, copyrights and trade-

marks. Such jurisdiction shall be exclusive of the courts of the states in patent and copyright cases."

28 U. S. C. Section 1652:

"The laws of the several states, except where the Constitution or Treaties of the United States or Acts of Congress otherwise require or provide, shall be regarded as rules of decision in civil actions in the courts of the United States, in cases where they apply.

Statement.

On September 19, 1957 respondent registered a claim to copyright in a record jacket entitled "RAILROAD SOUNDS, STEAM AND DIESEL" (AFLP 1843) in Class K as a print or label used for an article of merchandise and the Register of Copyrights of the United States of America issued therefor Certificate of Registration No. 129084.[1]

Commencing on or about September 1, 1957 and continuously thereafter, respondent issued for sale, records contained in its said copyrighted record jacket [R. 23].

On December 24, 1958, respondent filed its first amended complaint for unfair competition against petitioner, basing federal jurisdiction upon diversity of citizenship under 28 U. S. C. Section 1332(a)(1) [R. 3-22].

At trial, it was proven that petitioner copied respondent's record jacket and sold its own records in the

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[1]A copy of the front of respondent's copyrighted record jacket is reproduced as Exhibit 1, Book of Exhibits, Volume 3 of the certified printed transcript of record.

copied jacket.[2] Neither palming off nor diversion of trade by confusion or fraud was proven on any level of trade [R. 439-460]. Solely because there had been copying, the District Court awarded respondent all of the profits derived by petitioner from the sale of its record in the copied jacket and in the sum of $6,164.98. Since the copying was found to have been willful, attorneys' fees were awarded in the additional sum of $2,500.00 [R. 224, 236].

The court below affirmed the decision of the District Court regarding the copying and sale of petitioner's record to be "an equivalent of a palming off", and the award of attorneys' fees to be appropriate because of the willfulness of petitioner's acts.

Although argued on appeal the Court of Appeals for the Ninth Circuit in its decision did not consider the federal question of state created remedies for the enforcement of the exclusive rights secured under the Federal Copyright Act.

Reasons for Granting the Writ.

1. The decisions of the court below grant monetary remedies for unfair competition under California state law based upon the copying and sale of a copyrighted record cover. This raises the singularly important question of the relationship between federal and state remedies for the enforcement of the exclusive right to "print, reprint, publish, copy and vend" a copyrighted work given the copyright proprietor under Section 1(a) of the Federal Copyright Act. This Court has never

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[2]A copy of the front of petitioner's record jacket is reproduced as Exhibit 2, Book of Exhibits, Volume 3 of the certified printed transcript of record.

directly decided whether the policy and force of the copyright clause (U. S. Const. Art. I, Sec. 8, Cl. 8) empowering Congress to secure to Authors the exclusive Right to their Writings for limited Times either alone or together with the copyright act (17 U. S. C., Section 1, *et seq.*) precludes state created remedies for copying a published and copyrighted work.

Kaplan, *Performer's Right and Copyright: The Capitol Records Case,* 69 Harv. L. Rev. 409 (1956):

Kalodner and Vance, *The Relation Between Federal and State Protection of Literary and Artistic Property,* 72 Harv. L. Rev. 1079, 1098-1099 (1959).

It is suggested or implied but not decided in *Wheaton v. Peters,* 33 U. S. (8 Pet.) 591 (1834), *Holmes v. Hurst,* 174 U. S. 82 (1899), *Hurn v. Oursler,* 289 U. S. 238 (1933), that the exclusive remedy for copying a copyrighted work must be sought under the copyright act.

Judge Learned Hand vigorously argued in *Capitol Records, Inc. v. Mercury Records Corp.,* 221 F. 2d 657, 667 (C. A. 2, 1955), that the "limited Times" policy of the copyright clause of its own force deprives the states of power to provide remedies for copying published works that are copyrightable under the Constitution:

> "I would hold that the clause has that much effect ex proprio vigore; and that the states are not free to follow their own notions as to when an author's right shall be unlimited both in user and in duration."

See, also:

Fashion Originators Guild of America, Inc. v. FTC, 114 F. 2d 80 (C. A. 2, 1940), aff'd 312 U. S. 457 (1941).

Since this Court's decision in *Erie R. Co. v. Tompkins,* 304 U. S. 64 (1938), the Third Circuit in *Ettore v. Philco Television Broadcasting Corp.,* 229 F. 2d 481 (C. A. 3, 1955) cert. den. 351 U. S. 929 (1956), and the Second Circuit in *Capitol Records, Inc. v. Mercury Record Corp.,* 221 F. 2d 657 (C. A. 2, 1955), have in the exercise of diversity jurisdiction, granted remedies for unfair competition under applicable state law for the copying and exploitation of non-copyrightable works. The Ninth Circuit in the instant case goes further and applies remedies under California state law to the copying and sale of a copyrighted work.

The decision of the Ninth Circuit here is in conflict with the Second Circuit holdings in *G. Ricordi & Co. v. Haendler,* 194 F. 2d 914 (C. A. 2, 1952), and *National Comics Publications v. Fawcett Publications,* 191 F. 2d 594, 603 (C. A. 2, 1951), that as a matter of federal law, state remedies for unfair competition must consist of more than the copying and sale of a copyrighted work.

The action of court below in extending state remedies for unfair competition based upon the copying and sale of a copyrighted work is contrary to the entire scheme of statutory copyright. The direct effect of the decision of the Ninth Circuit in the instant case permits the copyright claimant to secure remedies paralleling those provided in the Federal Copyright Act (17 U. S. C., Sections 101 and 116) whether or not there has been compliance with the formalities required by Congress to be

entitled to such protection. Furthermore, the force and effect of the decision below gives the copyright claimant a monopoly unlimited in duration exceeding the term of copyright provided in the copyright act (17 U. S. C. 24) and contrary to the policy of the Constitution, restricting such protection to "limited Times".

2. Even if the several states do have the power to create remedies for the copying and sale of a copyrighted work, the California courts will not entertain such a claim based upon state law for violation of any of the rights secured by the Federal Copyright Act.

Lowes, Inc. v. Superior Court, 18 Cal. 2d 419, 424, 15 P. 2d 983 (1941):

> "The author has the right of election, that is, he may content himself with his common law copyright, or he may elect to substitute therefore the right afforded by the statute by complying with its provisions, whereupon the extent of his copyright and the remedies for infringement are governed by the statutory provisions."

The decisions below in the instant case are in excess of the court's diversity jurisdiction in that remedies are provided under California state law for the copying and sale of a copyrighted work when that relief could not have been obtained had respondent presented its claim in the courts of the State of California.

The one California case upon which the Ninth Circuit relies in its decision, *Modesto Creamery Co. v. Stanislaus Creamery Co.*, 168 Cal. 289, 142 Pac. 845 (1914), does not involve a work in which federal copyright had been secured.

3. Assuming the propriety of state created remedies, the court below exceeded its diversity jurisdiction in awarding attorney's fees for unfair competition under California state law. The established policy and law of the state of California is that attorneys' fees cannot be awarded either as damages or as costs in this kind of claim.

Hornaday v. Hornaday (1949), 95 Cal. App. 2d 384, 394, 213 P. 2d 91, 97-98:

> "The policy of the law of this state that an unsuccessful party to a legal controversy cannot be assessed damages to the extent of the value of the attorney's service employed by his adversary is established by a long line of decisions. Spooner v. Cady, 5 Cal. Unrep. 357, 44 P. 1018; Mitchell v. Hawley, 79 Cal. 301, 302, 21 P. 833; San Diego Water Co. v. Pacific Coast Steamship Co., supra, 101 Cal. at page 220, 35 P. 651; Miller v. Kehoe, 107 Cal. 340, 343, 40 P. 485; Curtiss v. Bachman, 110 Cal. 433, 437, 42 P. 910, 52 Am. St. Rep. 111; Black v. Hilliker, 130 Cal. 190, 193, 62 P. 481; Commercial Savings Bank v. Hornberger, 140 Cal. 16, 22, 73 P. 625; Los Angeles Trust & Savings Bank v. Ward, 197 Cal. 103, 107, 239 P. 847; Kahn v. Smith, 23 Cal. 2d 12, 15, 142 P. 2d 13; In re Estate of Reade, 31 Cal. 2d 669, 671, 191 P. 2d 745; 11 A. Cal. Jur., p. 247, sec. 161."

Viner v. Untrecht, 26 Cal. 2d 261 at 273, 158 P. 2d 3 at 9:

> ". . . it is improper to include attorney's fees as a part of exemplary damages. Howell v. Scoggins, 48 Cal. 355; Falk v. Waterman, 49 Cal. 224."

The decision of the Court of Appeals for the Ninth Circuit in this regard is in conflict with this Court's holdings in *Guarantee Trust Co. v. York*, 326 U. S. 99, 112 (1945), and *Six Companies of Calif. v. Joint Highway District No. 13*, 311 U. S. 180 (1940), that in the exercise of diversity jurisdiction, the federal court is limited in its choice of remedies to those obtainable in the state whose law it's enforcing.

The Ninth Circuit affirmed the award of attorneys' fees in the instant case upon the authority of its prior holding in *National Van Lines, Inc. v. Dean*, 237 F. 2d 688 (C. A. 9, 1946), notwithstanding the unavailability of such a remedy under California state law.

The present conflict between the decisions of the highest court in California and those of the Court of Appeals for the Ninth Circuit stand as an invitation to lawyers, whenever diversity of citizenship is present, to elect a federal forum so as to obtain an award of attorneys' fees that would not be available were the identical case brought in the state court. It is precisely this kind of forum shopping that this Court sought to prevent in *Erie R. Co. v. Tompkins*, 304 U. S. 64 (1938). The conflict and competition between the state and federal courts in California will continue unless settled by this Supreme Court.

Conclusion.

For the foregoing reasons, this petition for a writ of certiorari should be granted.

Respectfully submitted,

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APPENDIX

APPENDIX A.

Memorandum Opinion.

Plaintiff Audio Fidelity, Inc. and defendant High Fidelity Recordings, Inc. were each engaged in the production, recording, distribution and selling of phonograph records. In September, 1957 plaintiff first distributed and sold a phonograph record produced and recorded by it under the title of "Railroad Sounds", these sounds being the noises of steam and diesel engines and other railroad sounds.

On or about September, 1958 defendant leased from Seymour F. Johnson Enterprises a recording of steam-engine and other railroad sounds which record was first produced, recorded, distributed and sold in the year 1955 under the title "Farewell to Steam", and on or about October 1, 1958 defendant commenced selling the recording under the title "I've Been Workin' On The Railroad."

Plaintiff sold its record enclosed in a "sleeve" or cover on which was depicted a steam locomotive and—imprinted across the top—the word "Railroad" in yellow, block letters. Defendant also sold its record "I've Been Workin' on the Railroad . . . A Fairwell to Steam" in a sleeve or cover on which was depicted a steam locomotive and across the top of which cover was imprinted the word "Railroad" in yellow, block letters.

At the original trial of this case the Court determined that all the materials used on plaintiff's sleeves or jackets were in the public domain and although defendant had copied plaintiff's jacket or sleeve, copying was, nevertheless, permissible.

The Court found plaintiff's record jacket was functional, attractive and desirable but not unique, arbitrary or fanciful; that on plaintiff's jacket the words (including the term "Railroad Sounds") and the picture appearing thereon had not severally or in combination acquired a secondary meaning; that there had been no palming off or passing off of defendant's record as plaintiff's product, and there had been no actual confusion and no likelihood of confusion on the part of purchasers between the two records.

As a result of its findings, this Court entered judgment in favor of defendant. Plaintiff appealed. The United States Court of Appeals for the Ninth Circuit reversed (283 F. 2d 551), calling attention to the fact the trial court, being convinced that copying by defendant of plaintiff's jacket had occurred, applied an improper theory of law in failing to rely on the inference created by such proof of copying. The case was remanded to enter an order for appropriate injunctive relief and damages, if damages were justified.

As we read the mandate from the Court of Appeals, the only question now before the Court is the amount of damages to be awarded plaintiff. If more than nominal damages are to be awarded, plaintiff must prove its damage.

At the original trial of this case the Court found defendant had copies the plaintiff's jacket or sleeve. It was and now is the Court's opinion that the copying was deliberate. In National Lead Company v. Wolfe, 223 F. 2d 195, at page 205, the Court said:

". . . [Where] there was a deliberate and intentional design to cause confusion and mistake and to deceive purchasers, the conclusion must be that whether the

cause be viewed as one of unfair competition or as one of infringement of a registered trademark, appellant is entitled not merely to relief by injunction but to an accounting of profits and damages as well.". . .

In Wawak & Co. v. Kaiser, 129 F. 2d 66, at page 70, the Court stated:

"The rule in unfair competition is the same as that in infringement of trademark."...

In Hygienic Products Co. v. Judson Dunaway Corportion, 81 F. Supp. 935, at 946 the Court says:

"Under the claim of unfair competition, as in that of infringement, the record is barren of any proof of damages. The burden "is upon the complainant to prove that it is entitled to damages or profits prior to the date alleged in the bill, and barring such proof, none can be awarded. The court must be furnished with some factual basis in order to formulate an award. No evidence was adduced that a single sale had been made as a result of any unlawful conduct of the defendant, that the plaintiff's profits were affected or its sales decreased; nor was there any evidence that sales made by the defendant diverted what otherwise would have gone to the plaintiff. Similarly, in respect to the complainant's prayer for an accounting of the profits or income of the defendant. To be allowed damages or an accounting of profits, the complainant is bound to establish loss of sales. [Citations.] There being no evidence of lost sales, neither damages may be allowed nor an accounting ordered." * * *

In Howard Dustless Duster Co. v. Carleton, 244 Fed. 881, the plaintiff objected to the finding of the master that plaintiff, not having shown it had lost any sales

it would otherwise have made but for the acts of defendants, is entitled to a merely nominal award for damages and is not entitled to recover any profits whatsoever. The Court said, however, at page 882:

"The defendant bases its argument upon the erroneous assumption that the showing of lost profits in a trade-mark or unfair competition case is the foundation of the plaintiff's right of recovery." * * *

The Supreme Court, in Mashawaka Mfg. Co. v. Kresge Co., 316 U. S. 203, had this to say in regard to the measure of damage in unfair competition cases (page 205):

". . .; and in assessing profits the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost which are claimed.' * * * Although the award of profits is designed to make the plaintiff whole for losses which the infringer has caused by taking what did not belong to him, Congress did not put upon the despoiled the burden—as often as not impossible to sustain—of showing that but for the defendant's unlawful use of the mark, particular customers would have purchased the plaintiff's goods.

"* * * The burden is the infringer's to prove that his infringement had no cash value in sales made by him. If he does not do so, the profits made on sales of goods bearing the infringing mark properly belong to the owner of the mark." * * *

This Court is not unmindful of the case of Brooks Bros. v. Brooks Clothing of California, 60 F. Supp. 442, and of Looz, Inc. v. Ormont, 114 F. Supp. 211, in which our brother Judge, Honorable Leon R. Yankwich, states that the principles which apply to trade-

mark cases do not apply to unfair competition; that the law of damages, for instance, calls for proof of actual loss of sales in unfair competition, while in trademark infringement, presumption of loss is inferred from the proof of use of the mark and evidence of sales.

Inasmuch as it has been held by a number of courts that the measure of damages in unfair competition cases is the same as in trademark cases, this Court comes to the conclusion that an item to be considered by the Court in the measure of damages is loss of sales. If plaintiff wishes to recover on any theory other than loss of sales, then plaintiff must produce adequate evidence to establish such loss.

In the case at bar there is no evidence before the Court that plaintiff has been damaged by loss of sales. Although there are a number of theories on which plaintiff could predicate its claim of damages, plaintiff relies primarily upon the rule set forth in Modesto Creamery v. Stanislaus Creamery Co., 168 Cal. 289, in which the rule as announced by the Supreme Court of California is stated as follows, at page 295:

"* * *. Entirely apart from the question of actual damage, the owner of a trademark is entitled to recover from an infringer the profits realized by the latter from sales under the simulated trademark. [Citation.] The same rule applies to cases of unfair competition, * * *"

Plaintiff now contends that once unfair competition has been established the only thing which must be shown to support damages is the profit derived by the defendant from sales of the articles in question, and that plaintiff is entitled to a judgment for the entire profits realized by the unfair competitor. In fact if

plaintiff in the case at bar is to recover more than nominal damages, he must relay upon such a premise.

"Once evidence of damage has been established, plaintiff may recover even though the amount is not capable of definite mathematical ascertainment. In such cases the triers of facts must fix the damages by reasonable estimate and approximation."

1—Wawak & Co. v. Kaiser, 129 F. 2d 66, 69.

In Dickinson v. O. & W. Thum Co., 8 F. 2d 570, the Court found defendant guilty of unfair trade and competition. The Court said, at page 573:

"Defendant's main complaint is that the master charged him with the entire profits accruing from the sale of any infringing goods during this period. It is insisted that the burden was on plaintiff to prove that defendant had made profits attributable in whole or in part to the infringing use of its trade-mark, and that the evidence does not support a finding that there were any so attributable. * * *

"Under the facts found and proved, the rule of Hamilton-Brown Shoe Co. v. Wolf Bros. & Co., 240 U. S. 251, 36 S. Ct. 269, 60 L. Ed. 629, is applicable. The infringer must account for the entire profits derived from the sale of the infringing goods. The recovery will not be limited to such amount as can be shown by direct and positive evidence to have resulted from the use of the infringing mark. The burden is not cast upon the plaintiff "to attempt the impossible task of showing what part of defendant's profits are attributable to the use of the infringing mark and what part to the intrinsic merit of his goods or other causes.

* * *

"* * *

"The master first found defendant's gross receipts from its sale of finished stock * * *"

The Court held that after the master had established the gross receipts from sales (page 576).

"He cast on the defendant the duty of proving these items [costs] and refused to allow them, because defendant had wrongfully and unnecessarily confused the goods on hand and the cost and expense of marketing them with its new goods and the cost and expense of its general manufacturing the selling operations during the accounting period. * * * He [defendant] should and must have known that he was entitled to no deductions from the sale price except such as were incident to the making of such sales and as pertained strictly to these goods. By failing to do so, but, on the contrary, commingling the same with his other product and operations without keeping or attempting to keep any records or accounts whereby the selling cost and expense attributable to these goods could be separated from his other operations, he brought himself within the principles of Westinghouse v. Wagner, 225 U. S. 604 [citations]. All the inconvenience and loss from the confusion is thrown upon the party who produces it; and this rule applies, even though the innocent victim's share in the property wrongfully and inextricably commingled may apparently be a small part of the total. * * *"

The decree of the District Court was affirmed.

In Trappey v. McIlhenny Co., 12 F. 2d 19 (Fifth Circuit) the Court says, page 21:

"It is urged by appellants that there was no evidece upon which the District Judge could have arrived at ap-

pellants' profits during the period of the accounting, and that the burden was not sustained by appellee. The books of account of appellants were required to be and were produced in court, for the inspection of the court and of appellee. They were, however, found to be in such unsatisfactory condition by the District Judge that they proved to be of no value upon the issue of profits and contained evidence of a purpose on the part of appellants to make it untruly appear that no profits had been realized by appellants over the period of accounting. * * * The number of cases of appellants' sauce sold with the infringing mark after the filing of the bill was ascertained to have been 1,879, each containing six dozen bottles. The average price obtained by the appellants for the 1,879 cases was found to have been $2.52 a dozen bottles. These two factors were fixed with certainty from the evidence. * * *

"The remaining factor necessary to the computation was the element of cost incurred by appellants in making and selling the 1,879 cases. The District Judge adopted the method of using the cost, which the evidence showed was that incurred by appellee during the period of accounting. * * *

"* * * Using appellants' cost of $2.07 for making and selling the sauce, there resulted a profit to appellants of 45 cents a dozen bottles, or upon the entire 1,879 cases, of six dozen bottles each, the sum of $5,073.30, which was the amount of the decree. There being no possible way of allocating the effect of the infringed trade-mark upon the distribution of profits, there was no burden on the appellee to make such allocation. [Citation.]"

In Deering, Milliken & Co. v. Gilbert, 269 F. 2d 191, it appeared the plaintiff established the amount of tags printed and also established the number of tags in defendant's possession at the time of seizure. Plaintiff asked the trial judge to infer that the difference was used by Gilbert. The Court said, page 193:

"Appellant first challenges this method of computation of damages, claiming that there was no direct proof of his sales and that the District Court improperly inferred that 32,300 garment linings were sold in order to exploit the like number of missing tags.

"Under the circumstances, we think this method of proof was proper. At the trial, when called as a witness for the plaintiff, Gilbert was patently evasive; he denied any palming off and cloaked his answers by a short memory. When the plaintiff rested, the trial judge stated that the witness was unworthy of belief. At this point, the burden of going forward with evidence to refute the plaintiff's estimates of sales passed to Gilbert. His failure and refusal to produce the most satisfactory evidence of sales—or absence of sales—leaves his cause exposed to indirect and less definite and certain methods of proof. [Citations.] And where, as here, the defendant controls the most satisfactory evidence of sales the plaintiff needs only establish a basis for a reasoned conclusion as to the extent of injury caused by the deliberate and wrongful infringement. [Citations.]

"* * *

"Whatever risk of uncertainty may attach to this formula is one which must be borne by the willful infringer and not by the injured innocent party. Story Parchment Co. v. Paterson Co., supra.

"* * *

"* * * And profits wrongfully made by the infringer may be taken as one measure of the plaintiff's actual damages. * * *"

From the foregoing authorities, this Court is of the opinion that one manner in which to measure plaintiff's damages is to ascertain the number of records sold by defendant and the price thereof, deducting from the sales price the cost of making, distributing and selling the records.

However, defendant contends the record was the item sold; that the sleeve or jacket was used only to contain the record and, in establishing the sales to be assessed against defendant, represents only a small portion of the amount involved. There is, however, no way to ascertain to just what extent the jacket or sleeve contributed to sales. Testimony was to the effect that records could not be sold unless in an attractive cover. Defendant placed the record in the offending sleeve or jacket to sell it. There was confusion of products, and inasmuch as defendant caused the confusion and has kept no records respecting the sleeve or jacket from which the actual amount chargeable may be determined, defendant must suffer the consequence.

In this case it appears that Richard Vaughn was the sole owner, operator and proprietor of High Fidelity Recordings, Inc., and of High Fidelity Distributing Corporation. He testified he was the sole stockholder and that all assets of both corporations were owned by him. Defendant contends the records in question were sold to the distributing corporation and that the profit made on the sale of the record to the distributing company was the difference between the cost of pro-

duction by High Fidelity Recordings, Inc., and the sale price to High Fidelity Distributing Corporation.

On the other hand, plaintiff contends the distributing corporation was nothing more than a sham and that as Richard Vaughn was the sole stockholder of both corporations the Court can disregard the price paid by the distributing corporation and consider the price retailers paid to the distributing company for the records.

Evidence in this case discloses the records were pressed by RCA Victor Company and that after they were pressed RCA Victor inserted them into the sleeve or jacket, whereupon the records were placed in the warehouse of RCA Victor. When an order was received for delivery of records RCA Victor took them from the warehouse and forwarded them to the retailer. From the testimony it appears the defendant production corporation never had physical possession of the records. They were processed by RCA Victor and title did not pass until the records were shipped to retailers. At no point of the transaction did defendant actually have possession of the records.

Both defendant corporation and the distributing corporation occupied the same office. The corporations' books were, to a great extent, kept by the same employees. Richard Vaughn attempted (in his own thinking) to make a distinction between the production corporation and the distributing corporation, but when he spoke there was no indication whether he was speaking for the recording company of the distribution company, unless he himself designated which company he was then representing. Although some attempt was made

to segregate the books and accounts of the two corporations, nevertheless, the books and records were in such condition that it was practically impossible for plaintiff to ascertain the true facts therefrom. Consequently, this Court comes to the conclusion that in assessing damages in this case the sales to the distributing corporation must be disregarded, consideration being given only to the cost of the records to the defendant, deducting that cost from the ultimate sale price to the retailer.

Testimony indicated the following costs were incurred by defendant in producing a record and placing it in the hands of the retailer:

Pressing	$0.43
Royalty	.45
Label	.01
Excise Tax	.10
Jacket	.20
Sleeving	.05
Freight & Shipping	.10
	$1.34

The records were distributed under the numbers R-901 and SR-901. Testimony was that the cost of processing the SR record would be ten cents more than the cost of processing the R record. It will be noted there was no allowance for overhead or "indirect costs" in the above figures.

It is plaintiff's contention that inasmuch as no records were kept to show overhead as to this particular record, and as this was only one of many records processed and sold by defendant, and there was no necessity to employ additional help or rent additional space

to handle this record, no overhead should, therefore, be allowed. This Court is of the opinion, however, that it would be only just and equitable to allow defendant some credit for indirect costs.

Richard Vaughn testified at the trial that the indirect costs in manufacturing a record were ten to fifteen cents each and his indirect costs in distributing the record were twenty-five to thirty cents. No concrete evidence was adduced by defendant to substantiate any of the claim as made. It is pure speculation and conjecture as to the percentage of indirect costs or overhead.

The Court will allow (not the amount claimed by Mr. Vaughn as indirect costs and overhead nor the zero figure suggested by plaintiff) ten percent of the sales price. This would be twenty-four cents on the R record and twenty-eight cents on the SR record, making the cost of production of the R record $1.58 and of the SR record $1.72.

It was indicated that the R record sold for $2.37 which would mean a profit of $0.79 on that record, and that the SR record sold for $2.85—a profit of $1.13 on the SR record. It has been stipulated in this case that 4,255 R. records were sold in the offending jacket and 2,481 of the SR records were so sold. Consequently, damage in this case on the R records amounts to $3,361.45 and on the SR records to $2,803.53—a total damage in the sum of $6,164.98.

Plaintiff contends it is entitled to an award of reasonable attorney fees. Considering the fact that there was deliberate copying of the jacket; that defendant maintained unsatisfactory, inadequate and ineffectual

books; that the chief witness for the defendant corporation was evasive and that he hindered discovery proceedings by his failure and refusal to cooperate, the Court is of the opinion this is a case in which an award of attorney fees would be justified. Consequently, plaintiff is entitled to attorney fees in the amount of $2,500.00.

Counsel for plaintiff will prepare findings of fact, conclusions of law and judgment pursuant to this memorandum for presentation to the Court within the time provided by the rule.

Dated: April 26, 1961.

/s/ HARRY C. WESTOVER,
United States District Judge.

[Endorsed]: Filed April 27, 1961.

APPENDIX B.

Opinion of United States Court of Appeals for the Ninth Circuit.

High Fidelity Recordings, Inc., Appellant, vs. Audio Fidelity, Inc., Appellee. No. 17,476. June 28, 1962.

Appeal from the United States District Court for the Southern District of California, Central Division.

Before: Barnes, Jertberg and Browning, Circuit Judges.

Barnes, Circuit Judge:

This is an appeal from a final judgment entered by the United States District Court, upon remand by this court (*Audio Fidelity, Inc. v. High Fidelity Recordings, Inc.*, 1960, 283 F. 2d 551), against appellant, permanently enjoining it from competing unfairly with appellee and assessing damages against appellant in the total amount of $8,664.98 and costs. A timely notice of appeal having been filed, the jurisdiction of the district court and of this court is founded upon the same authorities as cited in the earlier appeal.

The basic facts are not disputed by the parties. Appellant only appeals from that portion of the judgment entered below (a) that awards its profits from the sale of records in copied jackets, and (b) attorneys' fees. We affirm.

Upon the remand of this case for further consideration in accordance with this court's mandate, the district court set the matter for trial on the issue of dam-

ages. Prior to the trial, appellee sought to take the deposition of Mr. Vaughn,[1] appellant's president, for the purpose of determining appellee's damages and appellant's profits.

At the deposition, Vaughn failed to produce the books and records called for by the notice and subpoena served on him, and refused to answer certain questions put to him.[2] Vaughn's conduct was brought to the attention of the district court, which found Vaughn's refusal to answer the questions put to him to be "without substantial justification" and appellee's motion for reasonable costs and attorneys' fees was then taken under submission.

Subsequently, at further depositions and despite the hostility of Vaughn, some records were uncovered. And, at the instant trial, counsel for appellant offered to stipulate to the sale of 6,736 records in jackets which were copied from appellee.

The district court found that appellant, as admitted, sold 4,255 monaural and 2,481 stereo records in copied jackets; and that appellant's total profit on these sales was $6,164.98. In addition, the district court found that appellee was entitled to an award of exemplary damages in the amount of reasonable attorney's fees (viz, $2,500.00) in view of the facts that: appellant deliberately copied appellee's jacket; it failed to maintain adequate records and books of account; its president, Vaughn, repeatedly changed his testimony;

---

[1]Hereinafter referred to as "Vaughn" and who is the person characterized by the district court in the first trial as one of the "most unsatisfactory witnesses" encountered in a long time.

[2]Appellant here attempts to excuse this conduct as having been done on the advice of former counsel.

and that it hindered discovery proceedings because of Vaughn's conduct.

The alleged errors upon which appellant relies in this court are:

> "1. The District Court erred in awarding plaintiff [appellee] attorney's fees either as exemplary damages as set forth in Finding of Fact No. 20 or otherwise, in a claim of unfair competition under California State law.
>
> "2. The District Court erred in awarding [appellee] all of [appellant's] profits in an action of unfair competition under California State law where [appellee] failed to prove that [appellant] actually palmed off its record to any purchasers who were misled or deceived into believing that they were buying [appellee's] recording and where there is no evidence that any profits were actually diverted from [appellee] to [appellant] by confusion or fraud.
>
> "3. The District Court erred in awarding [appellee] all of [appellant's] profits as damages for unfair competition under California State law where [appellee] failed to prove that it actually lost all of the record sales made by [appellant] and that all of such sales were actually diverted from [appellee] to [appellant] by [appellant's] acts or conduct.
>
> "4. The District Court erred in applying a presumption of palming off as set forth in Finding of Fact No. 11 to impose damages or award profits in an action of unfair competition under California State law."

Thus, the two questions presented to this court are: (1) whether the district court properly awarded appellee the profits which appellant derived from the sale of records made in the copied jacket, and (2) whether the district court properly awarded appellee attorneys' fees either as exemplary damages or otherwise.[3]

I

Did the district court properly award appellee an amount equal to the profits which appellant derived from its sales of records made in the copied jacket? We hold it did.

Appellant does not question the district court's computation; i.e., the amount of profit made by appellant on the records sold in the copied jacket is not questioned. The issue raised goes only to the propriety of an award of these profits.

Appellant founds its contention that it was error for the district court to award its profits on the records sold in the copied jackets on a line of California cases headed by *Karsh v. Haiden*, 1953, 120 Cal.App.2d 75, 260 P.2d 633, and *Wood v. Peffer*, 1942, 55 Cal. App. 2d 116, 130 P.2d 220. In *Karsh* the court said: "The absence of fraudulent intent justified also the denial of an accounting of profits in equity." (120 Cal.App.2d at 85.) The district court, contends appellant, committed an error because it misinterpreted the case of *Modesto Creamery Co. v. Stanislaus Creamery Co.*, 1914, 168 Cal. 289, 142 Pac. 845.

---

[3] "This being a diversity case, the law of the forum state prevails." *Audio Fidelity, Inc. v. High Fidelity Recordings, Inc., supra*, 283 F.2d at 554.

Generally, the cases cited by appellant stand for the proposition that there must be proof of actual palming off in order to allow the recovery of an unfair competitor's profits when fraudulent intent to divert business is absent; *i.e.*, where one innocently competes unfairly. The line of cases headed by *Modesto, supra,* allows the recovery of an unfair competitor's profits when actual fraud, or *intent to divert business* by unlawful means is employed. *Modesto* states:

> "Entirely apart from the question of actual damage, the owner of a trade-mark is entitled to recover from an infringer the profits realized by the latter from sales under the simulated trade-mark *Graham v. Plate,* 40 Cal. 593. . . . The same rule applies to cases of unfair competition, in which, while there is no violation of an exclusive right in a technical trade-mark, *the defendant has used devices* calculated to pass off his goods as those of plaintiff." (Cases cited.) (Emphasis added.) (168 Cal. at 295.)

The issue thus becomes one of fact: Did or did not the district court find appellant's conduct to be innocent, *i.e.*, done without actual fraud or intent or calculation to divert business by unlawful means?

The district court cited the *Modesto* case, *supra,* as authority for its judgment. It seems implicit that the district court found appellant's conduct to be within the conduct proscribed in the *Modesto* case.

But, contends appellant:

> "Our reading of *Modesto* does not disclose any *presumption of palming off.* To the contrary, the trial court's findings of actual palming off was

upheld on appeal as being fully justified by the evidence. At 168 Cal. 281, 293, 142 Pac. 845-846:

'The use of said wrapper misled and deceived customers into buying defendant's butter in the belief that it was plaintiff's product.

* * *

'. . . The evidence fully justified the findings that these wrappers were adapted with the purpose of deceiving the public as above stated, and that they accomplished this purpose.'" (Emphasis appellant's.) (Re. Br. 2.)

Apparently appellant can see no similarity between the language it cites from *Modesto* and:

"The general impression given by the accused jacket of Exhibit *2* upon the eyes of the ordinary purchaser was such as to make him believe the defendant's record of that of plaintiff, and said accused jacket was likely to confuse and deceive the trade and members of the public and was designed for that purpose." (Finding of Fact 10, R. 240-241.)

And, appellant urges, the evidence in the instant case cannot justify the findings and conclusions of the district court, because the district court did not find an *actual* palming off. It did, however, find appellant guilty of deliberate unfair competition. The unfair competition alleged by appellee was palming off. The evidence supports a deliberate *intent* to palm off that which was not only placed upon the market by defendant, but *sold* therein, with resultant customer confusion between the two products. We believe it neces-

sarily follows that the district court found an equivalent of a palming off.

The district court did *not* find appellant to have innocently employed means of unfair competition. Hence it is clear that the cases cited by appellant are not applicable to the facts of this case. We cannot hold it was clearly erroneous for the district court to find appellant's conduct to be within the rule of the *Modesto* case, *supra*, nor to apply the law of the *Modesto* case. We therefore affirm.

II

Was it proper, as exemplary damages or otherwise, for the district court to award appellee reasonable attorneys' fees?

Appellee cites both California and federal cases as authority for the district court's award of exemplary damages as measured by reasonable attorneys' fees. Appellant counters with its own cases as authority for the impropriety of such an award, and attempts to distinguish or devitalize all of appellee's cases save one: *National Van Lines, Inc. v. Dean*, 9 Cir. 1956, 237 F.2d 688.

National Van Lines supports the district court's award of reasonable attorneys' fees. This court, in the *National Van Lines* case, said:

> "We will first direct our attention to the . . . claim of unfair competition.
>
> As to this claim, the law of the state in which the acts occurred [California] governs. *Sunbeam Furn. Corp. v. Sunbeam Corp.*, 9 Cir., 191 F.2d 141, 731." (237 F.2d at 691.)

When this court later said:[4]

> "Since we have found appellee's acts to have been willful and calculated to trade upon appellant's good will, the latter is entitled to recover its actual and reasonable attorneys' fees incurred in this litigation." (237 F.2d at 694.)

this court was fully cognizant of California law.[5] We there awarded actual and reasonable attorneys' fees in an action for unfair competition. We do not believe it was erroneous for the district court to make an award for reasonable attorneys' fees in the instant case.[6]

We affirm. We decline to grant appellee's reasonable, or any, attorney's fees on this appeal.

(Endorsed) Opinion Filed June 28, 1962.

Frank H. Schmid, Clerk.

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[4]Citing in marginal note 8: "*Aladdin Mfg. Co. v. Mantle Lamp Co.*, 7 Cir., 116 F.2d 708; *Admiral Corp. v. Penco*, 2 Cir., 203 F.2d 517; *Keller Products, Inc. v. Rubber Linings Corp.*, 7 Cir., 213 F.2d 382, 47 A.L.R.2d 1108."

[5]This court, in *National Van Lines v. Dean, supra*, also said, giving foundation in law for the district court's Finding No. 11 which appellant here contends was erroneous, that:

> "It is not essential to show intent to deceive in order to establish a case of unfair competition. But, if such an intent is shown, it raises a presumption that deception and confusion resulted. . . ." (237 F.2d at 692.)

What could be more intentional than that which is deliberate?

[6]In *Local No. 149 I.U. U.A., A. & A.I.W. v. American Brake Shoe Co.*, 4 Cir. 1962, 298 F.2d 212, the court, at page 215, said:

> "In actions for unfair competition attorneys' fees are assessed as an element of damages where the wrongdoers' action is unconscionable, fraudulent, willful, in bad faith, vexatious or exceptional.[3]"

In its footnote 3, the court cites as authority eleven cases, including *National Van Lines, Inc. v. Dean, supra*, and *Wolfe v. National Lead Company*, N.D.Cal. 1957, 156 F.Supp. 883, *affirmed* 9 Cir., 1959, 272 F.2d 867.

APPENDIX C.

Judgment.

High Fidelity Recordings, Inc., Appellant, vs. Audio Fidelity, Inc., Appellee. No. 17476.

Appeal from the United States District Court for the Southern District of California, Central Division.

This Cause came on to be heard on the Transcript of the Record from the United States District Court for the Southern District of California Central Division, and was duly submitted.

On Consideration Whereof, It is now here ordered and adjudged by this Court, that the judgment of the said District Court in this Cause be, and hereby is affirmed.

Filed and entered June 28, 1962.

APPENDIX D.

Order Denying Petition for Rehearing.

United States Court of Appeals for the Ninth Circuit

Excerpt from Proceedings of Monday, August 27, 1962.

Before: Barnes, Jertberg and Browning, Circuit Judges.

On consideration thereof, and by direction of the Court, It Is Ordered that the petition of appellant, filed July 30, 1962, and within time allowed therefor by rule of Court, for a rehearing of above cause be, and hereby is denied.

United States Court of Appeals for the Ninth Circuit

High Fidelity Recordings, Inc., Appellant, vs. Audio Fidelity, Inc., Appellee.

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IN THE

Supreme Court of the United States

October Term, 1962

No. 507

HIGH FIDELITY RECORDINGS, INC.,

Petitioner,

vs.

ADMO FIDELITY, INC.,

Respondent.

Respondent's Brief in Opposition to Petition for Writ of Certiorari.

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SUBJECT INDEX

I.

PAGE

Opinions below 1

II.

Additional statutes involved 1

III.

Counter statement of case 2

IV.

Questions presented 7

V.

Argument countering asserted reasons for the writ 8

A.

The cases and the law review articles relied upon by petitioners in support of its argument that state created remedies for unfair competition are precluded by the Federal Copyright Act are wholly inapplicable to the factual situation of this case 8

B.

The decision of the Court of Appeals is not contrary to the California state law as set forth in Lowes, Inc. v. Superior Court, 18 Cal. 2d 419, 15 P. 2d 983 (1941) 12

C.

The court below did not exceed its diversity jurisdiction in awarding respondent attorneys' fees as such, or exemplary damages as measured by reasonable attorneys' fees .. 13

1. The award was justified under Rule 37(a) of the Federal Rules of Civil Procedure 13

2. Attorney's fees may properly be awarded by the federal court in cases of wilful unfair competition, apart from statutory authorization 14

PAGE

3. Exemplary damages under California Statute in the amount of reasonable attorneys' fees may be properly awarded by a federal court having diversity jurisdiction with venue in California 17

VI.

Conclusion 18

TABLE OF AUTHORITIES CITED.

CASES	PAGE
Audio Fidelity, Inc. v. High Fidelity Recordings, Inc., 283 F. 2d 551	3
Bank of China v. Wells Fargo Bank and Union Trust Co., 209 F. 2d 467	16
Capitol Records, Inc. v. Mercury Records Corp., 221 F. 2d 657	9
Fisher v. Star Co., 231 N. Y. 414, 132 N. E. 133, 19 A. L. R. 937	9
G. Ricordi & Co. v. Haendler, 194 F. 2d 914	9, 10
Holmes v. Hurst, 174 U. S. 82	8
Hornaday v. Hornaday, 95 Cal. App. 2d 384, 213 P. 2d 91	17
Hurn v. Oursler, 289 U. S. 238	8
Local No. 159 I. U. U. A. A. & A. I. W. v. American Brake Shoe Co., 298 F. 2d 212, cert. den. 369 U. S. 873, 8 L. Ed. 276, 82 S. Ct. 1142	16
Lone Ranger, Inc. v. Cox, 124 F. 2d 650	11
Lowes, Inc. v. Superior Court, 18 Cal. 2d 419, 15 P. 2d 983	12
Modesto Creamery Co. v. Stanislaus Creamery Co., 168 Cal. 289, 142 Pac. 845	12
National Comics Publications v. Fawcett Publications, 191 F. 2d 594	10
National Van Lines v. Dean, 237 F. 2d 688	14, 15
Pagliero v. Wallace China Co., 198 F. 2d 339	3, 4
Sandler v. Gordon, 94 Cal. App. 2d 254, 210 P. 2d 314	17
Singer Mfg. Co. v. Redlich, 109 F. Supp. 623	17
Specialty Equipment & Machinery Corp. v. Zell Motor Car Co., 193 F. 2d 515	15
Sprague v. Ticonic National Bank, 307 U. S. 161, 59 S. Ct. 777, 83 L. Ed. 1184	15

PAGE

Sterling Drug v. Benatar, 99 Cal. App. 2d 393 17

Swanson Mfg. Co. v. Feinberg-Henry Mfg. Co., 147 F. 2d 500 10

Wheaton v. Peters, 33 U. S. 591 8

RULES

Federal Rules of Civil Procedure, Rule 37(a) 1, 5, 13

STATUTES

California Civil Code, Sec. 3294 ..... 2, 17

United States Code, Title 17, Sec. 1 et seq 8

United States Code, Title 28, Sec. 1332(a) 3

United States Code, Title 28, Sec. 1332(a)(1) 7

TEXTBOOKS

69 Harvard Law Review (1956), p. 409, Kaplan, Performer's Right and Copyright: The Capitol Records Case 8

72 Harvard Law Review (1959), pp. 1079, 1098-1099, Kalodner and Vance, The Relation Between Federal and State Protection of Literary and Artistic Property 8

IN THE

Supreme Court of the United States

OCTOBER TERM, 1962
No. .....

HIGH FIDELITY RECORDINGS, INC.,

Petitioner,

vs.

AUDIO FIDELITY, INC.,

Respondent.

Respondent's Brief in Opposition to Petition for Writ of Certiorari.

To the Supreme Court of the United States:

I.
OPINIONS BELOW.

The petitioner has failed to provide the pertinent opinion of the Court of Appeals for the Ninth Circuit on the first appeal herein. This opinion setting forth the facts of the present litigation is reported at 283 F. 2d 551.

II.
ADDITIONAL STATUTES INVOLVED.

Federal Rules of Civil Procedure, 28 U. S. C. Rule 37(a):

"If a party or other deponent refuses to answer any question propounded upon oral examination, the

examination shall be completed on other matters or adjourned, as the proponent of the question may prefer. Thereafter, on reasonable notice to all persons affected thereby, he may apply to the court in the district where the deposition is taken for an order compelling an answer. . . . If the motion is granted and if the court finds that the refusal was without substantial justification the court shall require the refusing party or deponent and the party or attorney advising the refusal or either of them to pay to the examining party the amount of the reasonable expenses incurred in obtaining the order, including reasonable attorney's fees."

California Civil Code Section 3294:

(See pertinent text in respondent's argument, *infra.*)

III.

COUNTER STATEMENT OF CASE.

The "Statement" in the petitioner's argument omits any summary of the nature and substance of the prior proceedings. The following short review will provide a more comprehensive understanding of the facts material to the consideration of the questions presented here.

Respondent, Audio Fidelity, Inc., and petitioner, High Fidelity Recordings, Inc., are corporations competitively engaged in the recording and distribution of phonograph records which are packaged and sold in record covers or jackets. In the present action, based solely on unfair

competition, it is established in the opinions of the District Court and the Court of Appeals that petitioner deliberately copied primary identification features of respondent's jacket which had acquired a secondary meaning, for the purpose of palming off its records as those of respondent. Petitioner sold a substantial number of its competing records in the accused jacket, with resulting customer confusion. In short, this case presents the typical situation involving deliberate efforts to palm off goods by simulation of the dress of a competitor's product.

No copyright in the respondent's jacket was ever pleaded nor was any copyright registration ever received in evidence during the trial of this case. Jurisdiction of the Federal Court was at all times based solely on diversity under 28 U. S. C. 1332(a).

In the first trial of this action, not mentioned in petitioner's statement, the District Court, although noting that there was direct copying of the dress of respondent's record jacket, concluded that because the features reproduced by petitioner were "functional" under the decision of *Pagliero v. Wallace China Co.*, 198 F. 2d 339 (C. A. 9th, 1952), they could not acquire a secondary meaning nor be protected against reproduction by a competitor.

On the first appeal, the Court of Appeals for the Ninth Circuit in *Audio Fidelity, Inc. v. High Fidelity Recordings, Inc.*, 283 F. 2d 551 (1960), reversed the Trial Court and held that the functionality rule set

forth by the *Paglicro* case was inapplicable "where the 'form of dress for the goods (is) primarily adapted for purposes of identification and individuality . . .'" (283 F. 2d at p. 555). In addition, the Court of Appeals held that respondent had established by direct evidence or by presumption and inference therefrom that:

1. Petitioner had copied major identification features of respondent's jacket (p. 557);
2. There was such a similarity between the two jackets as to result in a likelihood of public confusion (pp. 557, 558);
3. The respondent's jacket had acquired a secondary meaning (pp. 557, 558);
4. The (petitioner's) jacket was copied from respondent's with the intent to deceive purchasers and to realize upon such secondary meaning (p. 558).

The Court of Appeals having noted that the proof of damages was insufficient (p. 558), remanded the case back to the Trial Court for further consideration of this question [R. 219].

Prior to the second trial or accounting of damages in the District Court, respondent sought to take the deposition of the petitioner's president, Richard Vaughn, to establish petitioner's profits on the sales of the record in the simulated jacket. Mr. Vaughn had successfully concealed petitioner's profits at the first

trial where he was characterized by the Trial Court as "one of the most unsatisfactory witnesses I have had for a long time" [R. 212]. At such depositions Vaughn failed to produce the books and records called for by the notice and the subpoena served on him and refused to answer many pertinent and material questions. Further, such sales figures as Vaughn did disclose were contradictory and misleading. When the matter was brought before the Trial Court for supervision, it found that Vaughn's refusal "was without substantial justification", and respondent's motion for costs and reasonable attorney's fees under Rule 37(a) of the Federal Rules of Civil Procedure was taken under submission [R. 220-222].

At subsequent depositions [Ex. 67, Vol. 2] and at the second trial on the issue of damages, Vaughn continued to secret the profits made by the sale of records in the accused jacket and successively changed his testimony as to the number of such records sold [Ex. 67, Vol. 1, p. 65, Vol. 2, pp. 107-108, and R. 293]. Thus, the Trial Court in its decision stated "that defendant maintained unsatisfactory, inadequate and ineffectual books; that the chief witness for the defendant corporation (Mr. Vaughn) was evasive and that he hindered discovery proceedings by his failure and refusal to cooperate . . ." [R. 236]. The Trial Court then awarded respondent the profits made by petitioner through the sale of records in the accused jacket in the sum of $6,164.98. In addition, the Trial

Court awarded respondent $2,500.00 exemplary damages [R. 236], for reasons stated as follows in Finding of Fact 20 [R. 253]:

> "20. Plaintiff is entitled to an award of exemplary damages in the amount of reasonable attorneys' fees of $2,500 in view of the fact that there was deliberate copying of the jacket; defendant maintained unsatisfactory, inadequate, and ineffectual books, even after March 15, 1959, the date of alleged changeover to the jacket of Exhibit A, and Mr. Vaughn repeatedly changed his testimony; and defendant hindered discovery proceedings by Mr. Vaughn's unreasonable failure to answer questions and refusal to cooperate in ascertaining the extent of defendant's profits on the sale of records in the accused jacket Exhibit 2."

Petitioner's appeal from this accounting was based on the argument that under California law, petitioner's profits from the sale of the record in the copied jacket could not be awarded respondent, absent proof that such sales on which the profits were determined resulted from established incidents of palming off. Petitioner also contested the award of exemplary damages.

The Court of Appeals rejected both of these arguments and affirmed the propriety of the modest judgment of the District Court. In this second decision, Appendix B to the Petition, the Court of Appeals reiterated its view of the case as one involving "deliberate intent to palm off" (App. B, p. 20).

IV.

QUESTIONS PRESENTED.

The Petition (pp. 2-3) presents four questions upon which a review is requested, should this writ be granted. It is submitted that there are really only two questions involved and that these were framed in utter disregard of the findings of fact and conclusions of law of the District Court and Court of Appeals. Accordingly, respondent herein has rephrased these questions which are sought to be raised by petitioner, as follows:

(1) Whether the Federal Court in the exercise of its diversity jurisdiction (28 U. S. C., Sec. 1332(a)-(1)) is precluded from granting relief under state law for unfair competition in the nature of "palming off", by virtue of the fact that the work which is simulated or copied has been copyrighted under the Federal Copyright Act.

(2) Whether the Federal Court exceeds its jurisdiction in awarding exemplary damages as measured by reasonable attorneys' fees where wilful unfair competition under state law is established as well as concealment of accounts and where the defendant hinders, obstructs or delays the processes of the Court.

V.

ARGUMENT COUNTERING ASSERTED REASONS FOR THE WRIT.

A.

The Cases and the Law Review Articles Relied Upon by Petitioner in Support of Its Argument That State Created Remedies for Unfair Competition Are Precluded by the Federal Copyright Act Are Wholly Inapplicable to the Factual Situation of This Case.

The petitioner asserts that the Copyright Act (17 U. S. C. §1, *et seq.*) precludes state created remedies for copying a published and copyrighted work. In support thereof petitioner relies upon Kaplan, *Performer's Right and Copyright: The Capitol Records Case*, 69 Harv. L. Rev. 409 (1956), Kalodner and Vance, *The Relation Between Federal and State Protection of Literary and Artistic Property*, 72 Harv. L. Rev. 1079, 1098-1099 (1959), and the principle which petitioner claims is implied but not decided in *Wheaton v. Peters*, 33 U. S. (8 Pet.) 591 (1834), *Holmes v. Hurst*, 174 U. S. 82 (1899), and *Hurn v. Oursler*, 289 U. S. 238 (1933).

All of these sources deal with an entirely different factual context from the instant case. They are concerned solely with the conflict presented by the concept of common law literary property as enforced by the various states, as opposed to the federal remedy provided by the Copyright Act. They are not concerned with the problem of trading on a secondary meaning or "palming off" of competitive merchandise by label or dress simulation. These decisions deal solely with the remedies afforded an author or artist to protect

him from the mere copying of his work by another, outside of the environment of competitive dealing.

None of these sources dealing with literary property hold or even suggest that a federal copyright of the features of the dress of the goods or label precludes the state remedy for "palming off" which arises from the copying and sale of competing goods in the market place under the simulated label or dress.

The Second Circuit cases relied upon in petitioner's argument (p. 7) are equally inapplicable to the factual situation in the present case. The petitioner quotes a portion of the dissenting opinion of Judge Learned Hand in *Capitol Records, Inc. v. Mercury Records Corp.*, 221 F. 2d 657, 667 (C. A. 2nd, 1955), as supporting the argument that the state remedy for unfair competition is not available to protect once published literary property. In order to clearly understand the scope of Judge Hand's dissent we must look to the majority opinion in *G. Ricordi & Co. v. Haendler*, 194 F. 2d 914 (C. A. 2nd, 1952) (cited at p. 7 of petitioner's argument), where Judge Hand also recognized a valid state remedy for unfair competition even when a copyrighted work was the subject of the action. He distinguished with tacit approval the case of *Fisher v. Star Co.*, 231 N. Y. 414, 132 N. E. 133, 19 A. L. R. 937, where the plagiarism involved went so far as to make the reader believe that the copy was the work of the original author, *i.e.*, a "palming off" type of situation. Thus, it is clear that Judge Hand's dissent in the *Capitol Records* case was only intended to relate to common law literary property and not to unfair competition involving palming off.

The present case is not in conflict with the Second Circuit holdings in *G. Ricordi & Co. v. Haendler, supra,* and *National Comics Publications v. Fawcett Publications,* 191 F. 2d 594 (C. A. 2nd, 1951). As stated above, Judge Hand's opinion in *G. Ricordi & Co.* is fully consistent with the present case in recognizing the existence of a cause of action for unfair competition against a plagiarist of a copyrighted work who palms off his copies as those of the original author. Similarly, the Second Circuit in the *National Comics Publications* case recognized the valid state remedy of unfair competition in a case involving a copyrighted work, but merely disposed of the action on the ground that likelihood of public confusion was not shown.

Thus, it appears from an analysis of petitioner's own cases that the federal courts, exercising diversity jurisdiction have the power to enforce a remedy of unfair competition for the copying and palming off of a copyrighted work, such as a label or dress of goods, which has acquired a secondary meaning.

The distinction between the situation involving the mere copying of copyrighted literary property and that of the present case, embracing the appropriation of copyrighted display material which has acquired a secondary meaning, for the purpose of palming off goods in the market place, is further emphasized in the Second Circuit decision of *Swanson Mfg. Co. v. Feinberg-Henry Mfg. Co.,* 147 F. 2d 500 (C. A. 2nd, 1945). That case involved unfair competition in the sale of coin purses promoted by copyrighted display cards which were simulated by defendant. The opinion meets pe-

titioner's argument herein headon and disposes of it at page 503, where it states:

> "It has argued earnestly that the corporate plaintiff cannot maintain its action for unfair competition since it has a registered copyright on the card and that since it elected to obtain the copyright its only remedy must be an action for infringement. In support of that contention it relies on cases like Fashion Originators Guild v. Federal Trade Commission, 2 Cir., 114 F. 2d 80, holding that an author loses on publication the common law rights in his literary property and has only such rights to exclusive republication as he may obtain by virtue of a registered copyright. Such interpretations of copyright law are not applicable to the issue in this case in the way this defendant seeks to make them. We may assume, arguendo, for present purposes that the registered copyright has been infringed. Even so *the owner could waive that tort and sue to recover for unfair competition which it could prove the defendant had practiced in palming off its goods for those of the plaintiff by means of the copyrighted material.* The commission of two torts at the same time did not make the defendant immune from suit upon either, or both for that matter, at the election of the party wronged." (Emphasis added.)

To the same effect, see *Lone Ranger, Inc. v. Cox*, 124 F. 2d 650 (C. A. 4th, 1942).

B.

The Decision of the Court of Appeals is Not Contrary to the California State Law as Set Forth in Lowes, Inc. v. Superior Court, 18 Cal. 2d 419, 15 P. 2d 983 (1941).

The same distinction mentioned with respect to the federal court decisions is applicable to the *Lowes* case relied upon in petitioner's argument (p. 8). This decision relates to the election made by an author when he chooses to seek statutory copyright and forsake his common law right of literary property. It limits in no way the right of a copyright owner to pursue a state-created remedy of unfair competition when the dress of his goods has acquired a secondary meaning and has been deliberately copied by a competitor for the purpose of palming off. This is the precise basis upon which the court below granted the respondent herein recovery under the decision of *Modesto Creamery Co. v. Stanislaus Creamery Co.*, 168 Cal. 289, 142 Pac. 845 (1914).

C.

The Court Below Did Not Exceed Its Diversity Jurisdiction in Awarding Respondent Attorneys' Fees as Such, or Exemplary Damages as Measured by Reasonable Attorneys' Fees.

The Trial Court awarded respondent $2,500 attorneys' fees or as stated in Finding of Fact No. 20 [R. 253], "exemplary damages in the amount of reasonable attorneys' fees," because of respondent's deliberate piracy and in view of the conduct of Mr. Vaughn, its president, in obstructing the proceedings [R. 236]. Whether regarded as simply attorneys' fees, or as exemplary damages measured by reasonable attorneys' fees this award was clearly within the jurisdiction of the federal court.

1. The Award Was Justified Under Rule 37(a) of the Federal Rules of Civil Procedure.

As pointed out above, Mr. Vaughn, prior to the second trial on the damages issue, failed to produce books and records called for by a notice of taking depositions and a subpoena duly served on him, and also refused to answer many pertinent questions from which a determination of petitioner's profits might be ascertained. The Trial Court, on motion of respondent under Rule 37(a) of the Federal Rules of Civil Procedure, found Vaughn's refusal to answer to be "without substantial justification" and took under submission the motion for costs and attorneys' fees [R. 220-222].

Subsequently, and after repeated unwarranted and evasionary tactics during the second trial, the District Court stated in its decision that in addition to petitioner's fraudulent copying of respondent's record jack-

et "defendant maintained unsatisfactory, inadequate and ineffectual books; that the chief witness for the defendant corporation (Mr. Vaughn) was evasive and that he hindered discovery proceedings by his failure to cooperate . . ." [R. 236]. In view of the above facts the District Court awarded respondent exemplary damages in the amount of reasonable attorneys' fees of $2,500.

Apart from any other basis, this modest award of attorneys' fees after such findings by the Trial Court was authorized and, indeed, prescribed under Rule 37(a).

2. Attorney's Fees May Properly Be Awarded by the Federal Court in Cases of Wilful Unfair Competition, Apart From Statutory Authorization.

In *National Van Lines v. Dean*, 237 F. 2d 688 (C. A. 9th, 1956), the Court of Appeals held, in sustaining an unfair competition count under California law, that an award of attorneys' fees to plaintiff was proper. The Court stated at page 694:

> "Since we have found appellee's acts to have been wilful and calculated to trade upon appellant's good will, the latter is entitled to recover its actual and reasonable attorneys' fees incurred in this litigation.[8]"
>
> "8. Aladdin Mfg. Co. v. Mantle Lamp Co., 7 Cir., 116 F. 2d 708; Admiral Corp. v. Pendo, 2 Cir., 203 F. 2d 517; Keller Products, Inc. v. Rubber Linings Corp., 7 Cir., 213 F. 2d 382, 47 A. L. R. 2d 1108."

The decision of the Court of Appeals respecting attorneys' fees in the present case and in *National Van Lines v. Dean, supra,* is in line with the decision of this Court in *Sprague v. Ticonic National Bank,* 307 U. S. 161, 59 S. Ct. 777, 83 L. Ed. 1184 (1939). Here the discretionary power of federal courts in equity suits to award attorneys' fees is fully explored. Relying upon both English and American precedent, the court stated at 307 U. S. 164:

> "Allowances of such costs in appropriate situations is part of the historic equity jurisdiction of the federal courts."

"Appropriate situations" is expressedly not limited by this Court to those cases where the plaintiff purported to sue for a class having a common interest or has recovered a fund in which others share. Through interpretation by the various Courts of Appeals, "appropriate situations" include cases of fraud or oppression, such as wilful palming off.

In *Specialty Equipment & Machinery Corp. v. Zell Motor Car. Co.,* 193 F. 2d 515 at pages 520, 521 (4 Cir., 1952), the Court said:

> ". . . costs beyond those allowed by statute will be taxed only in exceptional circumstances, 'such as exist in the case of fraud, oppression, or bad faith, cases of fiduciary relationship or those in which the prevailing party has helped to create the fund upon which the costs are charged' (citing *Sprague v. Ticonic Nat. Bank, supra*)."

More recently in *Local No. 159 I.U.U.A.A. & A.I.W. v. American Brake Shoe Co.*, 298 F. 2d 212 (4 Cir. 1962), cert. den. 369 U. S. 873, 8 L. Ed. 2d 276, 82 S. Ct. 1142, the Court stated that in a proper situation where fraud, oppression, or bad faith is shown the recovery of attorneys' fees is proper. More particularly referring to unfair competition actions, the decision continues at page 215:

> "In actions for unfair competition attorneys' fees are assessed as an element of damages where the wrongdoers' action is unconscionable, fraudulent, willful, in bad faith, vexatious or exception."

The inherent power of the federal courts to award attorneys' fees as part of costs without regard to state law is also pointed out in *Bank of China v. Wells Fargo Bank and Union Trust Co.*, 209 F. 2d 467 (C. A. 9th, 1953), a diversity case governed by substantive California law, where the Court stated at page 476:

> "The Rules of Decision Act 28 USC §1652 and Erie R. Co. v. Tompkins, 304 US 64, 58 S. Ct. 817, 82 L. Ed 1181, did not have the effect of making the state law on attorneys' fees determinative."

3. Exemplary Damages Under California Statute in the Amount of Reasonable Attorneys' Fees May Be Properly Awarded by a Federal Court Having Diversity Jurisdiction With Venue in California.

The California Civil Code Section 3294 provides:

> "In an action for the breach of an obligation not arising from contract, where the defendant has been guilty of oppression, fraud, or malice, express or implied, the plaintiff, in addition to the actual damages, may recover damages for the sake of example and by way of punishing the defendant.

Pursuant to this statute exemplary damages may be awarded in unfair competition cases where defendant has been guilty of fraud. Under both California and Federal law, direct copying of features of identification, with intent to deceive, constitutes a fraud within the terms of said Civil Code, Section 3294.

Singer Mfg. Co. v. Redlich, 109 Fed. Supp. 623 (D.C.S.D. Cal. 1952);

Sandler v. Gordon, 94 Cal. App. 2d 254, 210 P. 2d 314 (1949);

Sterling Drug v. Benatar, 99 Cal. App. 2d 393 (1950).

In view of the foregoing statute and its application, it would seem irrelevant that the state court may not in a guardianship case, for example, *Hornaday v. Hornaday* (1949), 95 Cal. App. 2d 384, 213 P. 2d 91 (Petition p. 9), award attorneys' fees. In any event, petitioner's argument is inapplicable to the present case, involving not only fraud but the purposeful concealment of accounts. The state law does not control procedural matters. Here the federal court's processes have been delayed and obstructed by petitioner's con-

duct resulting in added and unnecessary costs to respondent. It is therefore proper for a federal court without regard to state practice, either to award straight attorneys' fees for the wilful conduct of the petitioner or exemplary damages under state law, measured by reasonable attorneys' fees.

VI.
CONCLUSION.

It is submitted that this case does not display any sufficient reason for the grant of a writ of certiorari within the rulings and practice of this Court. There is no conflict shown between the decisions of the Ninth and Second Circuits. Further, there is no important question raised respecting the relationship between federal and state remedies for the enforcement of the exclusive rights provided under the Federal Copyright Act.

This is a simple unfair competition action involving the copying of dress of goods which had acquired a secondary meaning, and the selling of competing goods in the simulated dress with the deliberate intent by petitioner of deceiving purchasers. That this dress of goods was also copyrighted, creates no important legal issue.

The public interest has been served through the upholding by the Court of Appeals of the decision of the District Court.

It is suggested that the petition should be denied.

Respectfully submitted,

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